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SUBJECT: A GOOD WEEK FOR IRAQ'S ECONOMY

Classified By: Ambassador Christopher Hill for reasons 1.4 (b) and (d).

From the Ambassador

¶1. (SBU) Summary. Overshadowed by the October 25 bombings and wrangling over the election law, it has been a good few weeks for Iraq on the economic front. Washington hosted the oversubscribed U.S.-Iraq Business and Investment Conference from October 20-21. The Ministry of Oil signed an agreement on one of the world's premier oil fields and reached agreement in principle of two more of Iraq's largest fields. On November 6, the Ministry of Finance reached agreement with China to reschedule Iraq's debts on Paris Club terms. Over the weekend, Iraq and the donor community sat down to begin to lay out a new partnership reflecting Iraq's strengthened sovereignty. Many of our economic priorities remain stuck, particularly those that require approval by the Council of Representatives (CoR), but we should not overlook important signs of maturity in Iraq's economic policymaking.

Standing Room Only

¶2. (C) Attendance at the October U.S.-Iraq Business and Investment Conference (BIC) exceeded our expectations. We had hoped for perhaps 600 participants and ended up with 1,000, with hundreds more on a waiting list unable to get in. Iraq's typical last minute approach to preparation had us on the edge of our seats, but the Iraqi delegation, particularly Oil Minister Sharistani, performed well, both at the BIC and preceding Dialogue on Economic Cooperation. The events even leveraged the passage of a key amendment to the Iraqi national investment law.

Unlocking Iraq's Oil Potential

¶3. (C) In a matter of a few days last week, the GOI signed a deal with BP on the Rumaila oil field and initialed agreements with ExxonMobil and ENI on two other huge fields. If these projects move forward as planned, within about six years Iraq could become the world's third largest oil producer and government revenue could more than double. While ExxonMobil was exasperated by the Ministry of Oil's efforts to turn the negotiation into an auction, giving Lukoil a chance to better each new ExxonMobil proposal, there is more to praise than to denigrate in Iraq's handling to date of its oil tenders. The protests of petro-nationalists were brushed aside and the international oil companies (IOCs) were invited in. The first bid round was transparent, and subsequent negotiations on fields not awarded in that round unfolded as Oil Minister Sharistani described to Deputy Secretary Steinberg two months ago. The top bidders on the unawarded fields were invited to negotiations, terms were clarified but not altered (well, not much), and deals were agreed. The fields went to consortia led by reputable Western firms, not gangsters or fly-by-night operators.

Reaching a Deal with the Chinese...

¶4. (SBU) On November 6, Iraq reached agreement with the Chinese to reduce Iraq's Saddam-era debt of \$8.5 billion by 80% in line with Paris Club terms. China was the last of the

Iraq's major creditors outside the region to come to terms compatible with the Paris Club. We understand that the GOI held firm, insisting on Paris Club terms even when their Chinese interlocutors sought a sweeter deal. China's claim was better than half of that still outstanding with non-Paris Club members outside the region and marks a major positive step.

And Coming Close to a Deal with the IMF

15. (SBU) The GOI also moved one step closer to agreement with the IMF on the terms of a standby arrangement. Minister Jabr agreed on an average \$73/barrel oil threshold price above which the GOI would not draw on the SBA. This was above which the GOI would not draw on the SBA. This was lower than Jabr's initial proposal of \$80/barrel, but Jabr managed to fend off IMF demands that the draft 2010 budget, already sent to the CoR, be cut by \$1.5 billion. Since the budget was drafted, and the financing gap calculated, at an oil price of \$62.50/barrel, the GOI probably will not need help from the IMF if the price of oil remains at least \$73/barrel, provided exports remain high.

A Changing Relationship with Donors

16. (SBU) The past few days also saw three landmark meetings with donors marking the changing relationship between Iraq and its international partners. Importantly, all these meetings took place in Iraq itself, not in Jordan or Europe. Meetings of the International Compact for Iraq and International Reconstruction Fund for Iraq were focused on how to wrap up these two donor coordination mechanisms and replace them with a GOI-driven development partnership. To

BAGHDAD 00002966 002 OF 002

that end, the GOI hosted a conference in Erbil to describe for donors progress on the National Development Plan.

Comment

17. (C) We are not Pollyannas. We recognize that progress is fragile and much of this good news is preliminary. The goodwill of the BIC needs to turn into actual investment. The CoR needs to get the budget passed and the GOI needs to reach an agreement with a balky World Bank on a Development Policy Loan. The GOI needs to take up the challenge of putting together a sound, prioritized development plan that has buy-in from and is binding on all ministries. These are all difficult tasks. But we should not let election law drama at the CoR and events like the October 25 bombing overshadow the economic progress that Iraqis are making.
HILL